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IN THE

Supreme Court of the United States

October Term, 1960

No. 501

BINKS MANUFACTURING COMPANY,
Petitioner,

vs.

RANSBURG ELECTRO-COATING CORP.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

BRIEF FOR RESPONDENT RANSBURG ELECTRO-COATING CORP.

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BRIEF FOR RESPONDENT

Opinions Below

Findings of Fact and Conclusions of Law by the District Court for the Southern District of Indiana (R. II: 968-1015) are reported at 122 U. S. P. Q. 74. The opinion of the Court of Appeals (R. IV: 838-851), affirming the District Court judgment, is reported at 281 F. 2d 252.

Jurisdiction

The Court of Appeals' judgment was entered on July 27, 1960. Petition for writ of certiorari was lodged by Binks on October 24 and granted by this Court December 19, 1960. Jurisdiction of this Court is invoked under 28 U. S. C. 1254(1).

Statutes Involved

The Act of July 2, 1890, 26 Stat. 209, known as the Sherman Act, provides in part as follows:

> "Sec. 1 [as amended by the Act of August 17, 1937, 50 Stat. 693]. Every contract, combination in the form of trust or otherwise or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: * * * [15 U. S. C. 1].
>
> "Sec. 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, * * * [15 U. S. C. 2]."

Section 3, Act of October 15, 1914, 38 Stat. 731, known as the Clayton Act, provides in relevant part:

> "* * * it shall be unlawful * * * to lease, or make a sale or contract of sale of goods, wares, merchandise, machinery, supplies or other commodities * * * on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods,

wares, merchandise, machinery, supplies or other commodities of * * * competitors of the lessor or seller, where the effect * * * may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

Questions Presented

Respondent Ransburg developed, and in 1954 secured a process patent on, a new electrostatic spray-painting system, the Ransburg "No. 2 Process," which was unique in that it was airless, or did not use compressed air to atomize paint. This system was so different from what had gone before, that key equipment needed to work it was "not available on the market" (Fndg. 11; R. II: 979). To fill this gap and "to be in a position to interest prospective licensees in the process" (Fndg. 10; R. II: 978), Ransburg was forced to develop certain specialized components of a No. 2 apparatus, which was patented in 1957 (R. II: 1029-35). Features of Ransburg's policy in trying to market its patented process, and to provide its customers with the specialized equipment needed to work it, lie at the heart of the basic issue whether Ransburg misused its No. 2 patents in violation of the antitrust laws. Resolution of this issue turns on the following questions presented here:[1]

1. Whether the Court of Appeals erred in sustaining the District Court's Finding of Fact that Ransburg "has never at any time required that any person desiring a license under" its process patent "must obtain from it, or pay for, equipment, installation supervision, or part-replacement service as a condition to the granting of the license" (Fndg. 66; R. II: 1002).

[1] The Memorandum for the United States as *Amicus Curiae*, received on April 17, 1961, expresses interest only in the subject matter of Questions 1 and 3 below, and is answered in the Argument herein.

2. Whether the Court of Appeals erred in sustaining the District Court's Findings of Fact that Ransburg "has never required any prospective licensee, as a condition to receiving a license under any patent, to take or pay for any license under any patent which did not apply to the system described in the license agreement"; and that "No licensee • • • has at any time received or paid for a license under any patent which did not apply to the system described in the license agreement" (Fndg. 71; R. II:1004).

3. Whether the Court of Appeals erred in sustaining the District Court's Finding of Fact that Ransburg's provision in certain of its early licensing agreements for "grant back to" it of "a royalty-free, • • • non-exclusive license, with right to sublicense, under any patents, inventions, or improvements acquired by licensee" within a limited period "relating to air-less electrostatic coating" "has not stifled or discouraged research or invention by licensees," and in affirming the conclusions that the "grant back" provision did not constitute patent misuse or violation of the antitrust laws (Fndg. 84, Conclusions 2 and 3; R. II:1012, 1014).

4. Whether the Court of Appeals erred in sustaining the District Court's Finding of Fact that, in obtaining the patents in suit, Ransburg made no "misrepresentations" to the Patent Office (Fndg. 91; R. II: 1013).

Statement of the Case

On October 11, 1956, Binks brought this suit seeking a declaratory judgment that Ransburg's process patent on its airless No. 2 painting system was invalid and had been misused and also alleging that Ransburg had violated the antitrust laws. After preliminary discovery proceedings brought out that Binks had actually used the airless system,

Ransburg answered and, as required by Rule 13(a), counter-claimed, charging Binks with infringement by practicing the patented process. Binks replied, denying infringement and reasserting invalidity, misuse, and antitrust law violations. After Binks, with leave of court, dismissed its orginal complaint, Ransburg's No. 2 apparatus patent issued and, via amended pleadings, became a subject of the same charges and allegations (R. II: 973). Later, all pleadings were consolidated in a set of substituted pleadings (R. I:1-45).

The issues joined, and extensive discovery completed, trial began in December 1958. "The evidence of both parties," as the District Court put it, "consisted of exhibits, records, written evidence, admissions, stipulations, interrogatories and depositions. The plaintiff offered no testimony of witnesses in the presence of the Court at the trial. The defendant in addition offered testimony of witnesses in the presence of the Court at the trial who were vigorously cross-examined" (R. II: 974-75).

Trial concluded in January 1959. And in June of that year, the District Court entered detailed Findings of Fact and Conclusions of Law—holding Ransburg's No. 2 process and apparatus patents valid and enforceable and Ransburg's licensing policy not afoul of the antitrust laws (R. II:968-1015). These findings and conclusions the Court of Appeals affirmed. It held that "The evidence supports a conclusion that plaintiff failed to establish that defendant has engaged in any activity beyond the exercise of rights incident to its patent monopoly" (R. IV:847 [2]).

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[2] The Court of Appeals did reverse the District Court's grant of attorneys' fees to Ransburg reasoning that "the facts do not justify a conclusion that there is herein presented the 'exceptional case' in which attorneys' fees are allowable under 35 U. S. C. A. §285" (R. IV: 850). This decision Ransburg does not challenge here.

The Facts

A. *The Parties:*

From proceedings below emerge those facts which mould issues now here.[3] Plaintiff Binks, the District Court found, has "for many years" been engaged in "manufacturing and selling spraying equipment for paint and other materials" (Fndg. 12; R. II: 979). In "business since 1892", Binks "has branch offices or warehouses in twenty-eight major cities in the United States and Canada, sells a line of merchandise under the slogan 'Everything For Spray Painting', and is one of the two largest merchandisers of spray-painting equipment in the United States," the other being De Vilbiss (Fndg. 12; R. II:979-80; R. III: 234). Binks "in many instances sells complete finishing facilities as a package" (*ibid.*).

Ransburg, in contrast, "had its origin in an individual proprietorship, operated by Harper J. Ransburg, * * * who was engaged in the manufacture and sale of a variety of houseware items, such as canister sets, bread boxes and similar accessories" (Fndg. 7: R. II: 976-77). Harper Ransburg "was assisted in this business by his three sons" and "in 1941, they formed a partnership * * *" (Fndg. 7; R. II: 977). From this partnership grew defendant Ransburg, incorporated in 1948, but with sole owners, officers, and directors still "the four Ransburgs" (*ibid.*).

Harper Ransburg's interest in paint spraying began with concern for improving methods and reducing costs in coating the housewares he vended. At that time, those wares were coated "by means of compressed-air spray guns, much of the material sprayed [was] not deposited

[3] Since each of the issues here turns essentially on the Findings of Fact of the District Court, concurred in by the Court of Appeals, the Findings (except those not bearing on the issues here) with references to the supporting testimony and documentary evidence are reprinted as an Appendix to Respondent's Brief submitted herewith.

upon the article, but [was] carried beyond it by the air blasts and [was] lost as 'overspray'; and a substantial investment and expense [was] necessary in installing, maintaining and operating spray booths, paint collecting devices, and exhaust systems" (Fndg. 8; R. II:977). So it was that "in about 1937" he and his sons began "experiments in using a high-voltage electrostatic field to deposit more efficiently upon articles of manufacture coating material atomized by conventional compressed-air spray guns. As the result of this work, they developed their 'No. 1 Process' * * *" (Fndg. 9; R. II:977).

B. *The Ransburg No. 1 Process:*

Though Ransburg's No. 1 Process "is not in issue" here (R. II: 968), problems Ransburg faced in operating and marketing this predecessor method form helpful background for present issues. Unlike the No. 2 Process now before this Court, *No. 1 did not involve airless electrostatic spraying.* Instead, "articles to be spray-painted were conveyed past an electrode. The articles were grounded, while an electric potential on the order of 90,000 volts was applied to the electrode to create an electrostatic field between it and the articles moving past it. A paint spray formed outside that field *by conventional compressed-air spray guns* was directed into the field with the result that the sprayed particles acquired electrical charges which caused them to be attracted to the articles" (Fndg. 19; R. II: 983; emphasis added).

Since the No. 1 Process (marketed beginning in 1944) used mainly conventional equipment, ready sources of supply other than Ransburg were available for most items. Thus, to cull from the District Court's Findings, "The conventional items such as conveyors, ovens and spray guns were not supplied by" Ransburg "but were purchased by * * * licensees from the plaintiff [Binks] and other sup-

pliers'' (R. II:968).[4] Thus, since Binks' ''line,'' in Binks' President's words, ''was standard'' (R. III: 218 and see R. I:687), and Ransburg's No. 1 Process utilized many ''conventional items,'' Binks could and did supply equipment to No. 1 Process licensees.

However, the No. 1 Process still left considerable room for improvement. For ''even with the benefit of electrostatic forces, paint losses in this method'' nonetheless amounted ''to as much as about one-third of the paint sprayed'' (Fndg. 19; R. II: 983). Accordingly, ''The Ransburg partnership continued its research and development work, and as a result thereof developed its No. 2 Process by which articles could be coated electrostatically *without the necessity of compressed-air spray guns to atomize the material*'' (Fndg. 11; R. II: 979; emphasis added).

C. *The Ransburg No. 2 Process:*

The No. 2 Process sprang from an interesting background (R. I: 361). The ''Ransburg organization,'' in the words of Dr. Emery Miller, Ransburg's research aide, ''was

[4] In point here is the testimony of Benjamin J. Hedger, Binks' Sales Manager (R. III:255-56):

> ''Q. Isn't it true that in all cases where the No. 1 type of system has been employed * * * that the regular suppliers of the air gun and associated equipment there on the market have supplied that equipment?
>
> A. Well, they have supplied that equipment.
>
> Q. In other words, Ransburg had never gone into the business of manufacturing air guns and the type of equipment that Binks makes?
>
> A. Not to my knowledge.''

Similarly, note the testimony of Harold P. Ransburg (R. III:169-70):

> ''Q. Licensing people to use the No. 1 Process, did you supply them the compressed air spray guns that were used with it?
>
> A. We did only where it was necessary. During the war, we had very slow delivery on those, and we put in a small stock of them to supply urgent needs, if someone was pressed

preparing an exhibit of the No. 1 Process which was to be taken to a metal show in Chicago * * *" (R. I:.360). "[A]n object such as a small canister [was to] be hung from a grounded support centrally in an electrostatic field" and coated with a spray gun "to portray to the observer the wrap-around characteristics and, therefore, the increased efficiency of our process." (*ibid.*). Touching up the exhibit, a Ransburg employee, Starkey by name, "was going over the control cabinet and the platform on which it was with a paint brush * * *. At the same time there was one of the other boys * * * involved in attaching and testing the high voltage supply. In the process, the paint brush Mr. Starkey was using came into the influence of the field and positioned opposite the metallic grounded side wall of the control panel, and he observed that, under those circumstances, the coating material atomized and broke up off the ends of the brush and was collected on * * * the grounded surface of the control panel, and the invention, I think, was born at that point" (R. I:361).

Building from this beginning, experiments continued. By the fall of 1944, work was far enough along on the

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for them, and as soon as deliveries became loosened up, we had them get them directly from one of the standard suppliers.

Q. Who were some of those suppliers from which you obtained these parts?

A. DeVilbiss, Binks and Pasche.

Q. From what general sources did your licensees from the air type system obtain their paint spray booths, exhaust systems, conveyors and so forth?

A. That varied considerably. As far as spray booths are concerned, the majority of them did get them from either Binks or DeVilbiss or from R. C. Mahoney, Ross Engineering—some of the conveyor and other people also supplied spray booths as well as the spray equipment manufacturers.

Q. Well, briefly, then, you supplied none of that to these licensees, do I state that correctly?

A. That is right. I think there might be one exception, for one local organization where they had a union problem, we did supply some sheet metal booths as an assistance to the customer. But we preferred not to.

process for Ransburg to apply for a patent on its No. 2 Process (R. II: 969). "[S]ystems which exemplify the 'No. 2 Process' employ no air for atomizing the paint or forming the spray, reduce paint losses to 1% or 2% of the paint sprayed, and can be practiced in the open shop without the necessity for expensive paint exhaust and overspray recovery equipment". (Fndg. 20; R. II: 984).

Despite these savings, Ransburg faced real difficulties getting its new process off the ground. On the one hand, "Satisfactory performance of • • • [the No. 2 Process] depends upon the character and quality of the specialized equipment incorporated therein" (Fndg. 64; R. II: 1000). Beyond maximum technical performance, less than optimum equipment increased the "possibility of a lethal shock", as well as the "likelihood of a fire" (R. III: 205). On the other hand, "much of the specialized equipment required for the practice of defendant's processes was and is not available on the open market" (Fndg. 65; R. II: 1001).

Consider, for one example, the power packs needed to supply high voltage for electrostatic painting, by either the air-type or airless method. Around 1944, there were no "voltage supplies or power packs available generally on the market which were safe for the use" in an electrostatic painting "process" (R. III: 168). To meet this problem, as a first resort Ransburg "principally worked with the General Electric Company; • • • [it] also had correspondence and some contacts with Westinghouse, their X-ray Division, and some of the other X-ray companies" (R. III: 168). Though "General Electric • • • seemed more interested in the possibilities of working with • • • [Ransburg], it would take them six or eight months, maybe, to design them and perhaps ten months to deliver one" (R. III: 168-69). The upshot was that they "seemed to bog down to some very lengthy discussions [and Ransburg] finally designed one • • • [itself] with the help of Dr. Miller from Purdue" (*ibid.*).

Much the same went for "a standard circulating system or pressure regulators" (R. I: 710). As Binks' own engineer put it, Ransburg, for its No. 2 Process "couldn't use a standard circulating system or pressure regulators that we [Binks] had used in our line. They [Ransburg] *even requested us* [Binks], at one time, to make up a special regulator to operate at the low pressures that they needed" (*ibid*, emphasis supplied).

Nowhere to be found were the completely new airless "atomizers"—the heart of the No. 2 Process. As the District Court found, "Inasmuch as the special paint atomizers and accurately controllable paint supply systems required for operation of the No. 2 Process were not available on the market, defendant designed and produced them and furnished them to licensees as part of the specialized equipment" (Fndg. 11; R. II: 979).

Finally, the particular equipment needed by the individual customers varied widely. As Harold Ransburg explained: "As we made more and more progress * * * we found various ramifications where variations * * * helped particular applications or coating of certain objects, there became a wide range of different types of atomizers and deflecting electrodes and so forth" (R. III: 173). And again, "each different product or each different set of circumstances dictates the particular design that we recommend and that is modified depending upon the customer's stated wishes * * *" (R. III: 177).

So it was that, to cull again from the District Court's Findings, "in order to be able to market its processes", Ransburg was compelled[5] to produce "much of the specialized equipment required for the practice of * * * [its] processes" (Fndg. 65; R. II: 1001). Its "intent was to make nothing that was readily available" (R. III: 174).

[5] Underscoring Ransburg's disinclination to itself get into the making of equipment is the testimony of Ransburg's Director of Technical Services regarding "reciprocators": "We furnished a few reciprocators in the very beginning until outside suppliers were found who would be better equipped to manufacture and make the reciprocators" (R. I:582).

Undertaking this task of providing only "the minimum specialized equipment needed" (Fndg. 68; R. I: 1003), the "first license of the No. 2 Process was granted by * * * [Ransburg] in 1949, under a special consulting and research agreement" with one company. And "General marketing of the system was commenced in 1951" (Fndg. 11; R. II: 979).

To aid in marketing its process, Ransburg geared its charges to the benefits to the user. Thus, as the District Court found, "monthly fees" represented simply "a portion of the user's savings resulting from the use of the system" (Fndg. 62; R. II: 999). The Ransburg system of charges geared to paint savings makes possible the use of the process by small companies such as Tonka Toy, Inc. of Mound, Minnesota and Metal Bed Rail Co. of Lexington, North Carolina, as well as extensive use by industrial giants such as General Electric Co. and its subsidiaries (R. I: 161, 163, 166, 174).

Similarly, to convince customers by meeting their particular needs, Ransburg would "set up" a "painting operation", as a "pilot", for any "prospect without obligation, employing his [the prospect's] products and coating material and simulating the conditions existing or contemplated in his plant" (Fndg. 61; R. II: 999). And, "If the prospect remains interested", Ransburg, obviating high initial costs, would lease the specially designed apparatus, with minimal initial charges and monthly fees, again proportioned to paint savings (Fndgs. 61, 62; R. II: 999-1000). For, in the words of one of the Ransburgs, "we compete with any other method of painting. It is our problem to convince someone we have a better method of doing it than several other ways that they can accomplish the same end" (R. III: 202).[6]

[6] "In painting many articles of manufacture, airless electrostatic, air-type electrostatic, non-electrostatic air-spray systems, flow-coating, roller-coating or dipping, can [be] and are substituted one for the other and are competitive" (Fndg. 83; R. II: 1011; Rice Dep., R. III: 262-64; Houlberg Dep., R. III: 270-73; Witness Harold Ransburg, R. III: 200-03).

As prospects for Ransburg's successful marketing of No. 2 brightened, Binks—true to its "slogan 'Everything for Spray Painting' "—became interested. In the words of the District Court's Finding, "Plaintiff's first knowledge of an airless electrostatic painting process was obtained from defendant's No. 2 system, after it was commercialized" (Fndg. 13; R. II: 980). Binks purchased a power pack in 1951 (Fndg. 14; R. II: 980). But Binks' "research was sporadic" through 1952; it was not until 1953 that Binks "retained Midwest Research Institute • • • to do research for it on electrostatic spray-painting • • •; such research was performed in 1953 and 1954" (Fndg. 14; R. II: 980-81).

However, on "August 3, 1954," Ransburg's No. 2 method patent issued (Fndg. 16; R. II: 981). Thereafter, the District Court found, Binks' "work in the field of airless electrostatic spray-painting became dormant"—that is, "until the negotiations with Ford Motor Company" which triggered the controversy here (*ibid.*). Ford was "the only prospective vendee to which • • • [Binks] has attempted to sell" its airless equipment (Fndg. 17; R. II: 981). And, apart from Ransburg, only Binks ever sought to supply the specialized "equipment for that airless type of system • • •" (R. I: 671).

D. *Dealings with Ford:*

Significant at this juncture, then, is the pattern of Ford dealings. One day "in the latter part of 1955", according to Binks' President, "an unsolicited request for a quotation came • • • through the mail" from Ford (R. I: 674)—a company that, for other painting equipment, had been one of Binks' "good • • • automotive accounts" (R. I: 679). "In response • • • on January 25, 1956" Binks "quoted its price upon [its airless] equipment with the express proviso: This bid shall not be binding • • • until Ford • • •

shall indemnify Binks * * * against any and all suits * * * which may be brought against Binks * * * for infringement and/or contributory infringement of Starkey *et al.* patent 2,685,536," the process patent here in suit (Fndg. 17; R. II: 981). This Ford was apparently unwilling to do.

Next followed an exchange of correspondence between Binks and Ransburg. Thus, on July 3, 1956 Binks wrote: "We have fully developed and are ready to market a paint sprayer which electrostatically atomizes the paint without making use of air. Since we understand from the trade you have a standard form of patent license, we would appreciate your sending us a copy * * *" (R. II: 894). A bit over a week later, on July 12, 1956, Ransburg sent its "standard license forms"—for paint users, either with *or* without Ransburg equipment—and said "We would appreciate an opportunity to get together with you and discuss any questions you may have" (R. II: 895).

However, Ransburg's standard license forms did not suit Binks. As Binks wrote, July 25, 1956, "This form of license would not be satisfactory to us as a manufacturer of spray equipment. Possibly you may have some other form of license that would be acceptable to us * * *" (R. II: 904). Since the basis for Binks' position was not clear, Ransburg, by way of response, inquired on August 16: "We will appreciate it if you will advise us what you have in mind" (R. II: 907).

About a week later Binks came back with the explanation "the submitted licenses * * * are not for the manufacture and sale of the actual spray equipment, but rather for the use of * * * equipment. What we are interested in is a license to make and sell equipment for this type of spray painting under your Starkey patent * * *" (R. II: 908).

Ransburg responded, on August 31, 1956, that it was in no position to license Binks "to make and sell" (R. II: 908), but could only "license [paint users] to use our process without reference to equipment" (R. II: 909). And

Ransburg added that, should its license forms be unsatisfactory for Binks' customers, "Under certain circumstances this license form could possibly be modified and if you have some suggestions in that direction or any other proposals to make we shall appreciate receiving them" (*ibid.*).

Some two weeks later, on September 12, Binks amplified the basis for its dissatisfaction (R. II: 910): "Our sales practice is such that any license agreements that we might enter into would have to require the payment of only one royalty at the time of each sale so that thereafter the customer's use of the equipment would be free of any further royalty payments * * *. Accordingly, would you consider granting a license requiring, in the instance of each sale of spray equipment, only a single royalty payment at a given rate of percentage of the sales price?"

With Binks' request that royalties be "based solely on the sales price of the equipment" Ransburg felt it could not comply. For this "would require a complete change in our marketing policy and a change of all of our licenses now in effect, as otherwise a large part of our licensees would be treated unfairly" (R. II: 911). However, in accordance with what had always been its policy,[7] Ransburg reiterated: "*We want you to know that licenses are available to your customers for painting with our method* * * *" (*ibid.*, emphasis added).

Underscoring Ransburg's good faith in not seeking to prevent Binks' entry into the equipment market is the pattern of Ransburg's dealings with Ford. While Binks

[7] "* * * it has always been the express policy of the defendant; and so understood by all of its officers and sales and management personnel, that if a prospective licensee preferred to obtain equipment elsewhere than from the defendant, he was free to do so and at reduced fees could obtain a license from defendant without equipment, installation supervision, or part-replacement service" (Fndg. 65; R. II: 1001; Witness Harold Ransburg, R. I: 463-64, R. III: 178-79, 180-84, 184-85, 185-88; R. III: 282-349; R. II: 753-55, 816-18; H. Ransburg Dep., R. I: 542-43; Pleva Dep., R. I:: 615-17; Witness Edwin Ransburg, R. III: 159).

was corresponding with Ransburg, Ford, too, wrote Ransburg. Thus, on July 6, 1956, Ford requested "a paid-up license with equipment"—Ransburg's equipment (R. I: 55). Ford's "paid-up" form request jibed closely with Binks' request for "a single royalty payment * * *" (R. II: 910). Ransburg *did* offer Ford a paid-up license, not to make and vend, but to use the process in consideration of a single payment representing the present value of the licensed future use. And, most important, Ransburg offered Ford licenses "both with and without equipment" (R. I: 56). So, in fact Ransburg—prior to learning of the Ford-Binks relationship—had already informed Ford, "the only prospective vendee" Binks ever had, that Ransburg would grant it a license without equipment, thus enabling it to obtain Binks' equipment (Fndg. 17; R. II: 981).

Ransburg's efforts, however, died aborning. For, on October 11, 1956—less than 60 days after Ransburg's offer to Ford, and just over two weeks after Ransburg's offer that "licenses are available to * * * [Binks'] customers" (R. II: 911)—Binks filed suit. Thus began the path of litigation that now ends here.

Summary of Argument

Ransburg, a small family concern, by experimentation and research which it commenced in 1937 to reduce its own costs, developed the first commercial electrostatic spray painting, the "No. 1 Process," which used compressed air guns to spray the paint. Later it developed a more efficient electrostatic process which did not use air to spray the paint, and was granted the patents in suit upon the method and an apparatus for the practice of the airless or "No. 2 Process." It has licensed the use of its inventions and has supplied to the licensees the specialized equipment which the licensees have needed and wanted, and which was not available elsewhere, despite Ransburg's at-

tempts to interest the large equipment manufacturers, including Binks, in producing the special items. In marketing the process, Ransburg has properly exercised its rights under patents lawfully obtained, and, as found below with complete support in testimony and documentary evidence, has not misused the patents or violated the anti-trust laws, whether its activities be viewed separately or as a whole.

I

When Ransburg began to commercialize its No. 2 Process in 1951, it was necessary for it to design and furnish to its licensees the specialized equipment needed for the practice of the process, because the principal components were not available. As the process gained acceptance, the licensees have affirmatively sought and have wanted the equipment supplied by Ransburg, and all have entered into agreements which require Ransburg to furnish the specialized equipment on a leased basis, supervise its installation, and replace defective parts.

It has always been Ransburg's policy, repeatedly expressed in bulletins to its sales personnel since 1947, that licenses under its patents to use its processes without its equipment and related items are available at appropriately reduced charges, and these terms have been quoted to prospects who were interested in them. Since 1953 prospects have been informed in writing, both at the beginning and at the end of negotiations, that non-equipment licenses are available. No one has ever requested or been denied a non-equipment license, or been required or forced in any way to take equipment or related items in order to obtain a license. Upon inquiry by Binks, Ransburg offered to license Binks' customers to use the Ransburg process with Binks' equipment.

When Ransburg in 1953 stocked non-equipment license forms and informed all of its existing licensees of the availability of such licenses, it was attempting no "purge" of any past misuse, but was increasing its efforts to be sure that all licensees would know of the available choice.

II

Nothing in Ransburg's license agreements, policy, or practice has required or forced any licensee to take or pay for a license under any unwanted or inapplicable patent in order to obtain a license to use the system desired. The scope of the license is determined by the system designed for the licensee and depicted in the drawing incorporated in the agreement, and the license is under only such patents as actually apply to the licensed system. The licensee is not required, expressly or otherwise, to recognize the validity of any inapplicable patent. No one has ever requested a license to use the method or apparatus of a particular patent or been refused such request, and Ransburg has never conditioned the granting of a license under any patent upon the taking of a license under an additional patent or patents.

III

The "Future Inventions" clause which was included in the license agreements executed during the early field experience of the No. 2 Process, when technical information was being freely exchanged among Ransburg and the licensees, provided for the grant back of a non-exclusive, royalty-free license under inventions or improvements in the field of the basic patents. This clause, which was eliminated from Ransburg's standard agreement forms in January, 1955, and cancelled from all outstanding agreements in September, 1959, was for the reasonable purpose of permitting all licensees to share improvements made in the early experience of the process, was used during a reasonable period, was of reasonable scope, and did not enlarge the monopoly of the basic patents. No license was ever obtained by Ransburg pursuant to the clause.

The only patent rights acquired by Ransburg from outside its own engineering and consulting staff were obtained solely for the lawful purpose of permitting it to market systems other than the airless system, free from

claims of infringement. Their acquisition did not eliminate competitors, did not involve the patents in suit, and did not damage Binks in its business or property.

IV

There was no fraud in procuring the patents in suit. Affidavits presented to the Patent Office to show commercial success of the invention claimed contained no misrepresentation, and the Patent Office was not misled or defrauded in any way by them.

Argument

Not challenged here is that Ransburg's No. 2 Process, and certain apparatus Ransburg conceived to work it, constitute patentable advances over prior art.[8] Challenged, instead, are three elements of Ransburg's efforts to market its process, along with minimal equipment, not otherwise available, needed to work it: I, furnishing and supervising installation of specialized equipment required for the process; II, identifying the subject matter of the license only by reference to a drawing, rather than to specified patents; and III, including, in the early days of No. 2, limited grant-back provisions in its license agreements. The basic question here becomes whether such actions, viewed as a whole (Pet. Br., pp. 19-28), or separately (*id.* at pp. 28-54), constitute misuse of Ransburg's No. 2 patents in violation of the antitrust laws.

Resolution of this basic question, in turn, must rest on the *facts* of Ransburg's market behavior. And such facts emerge in elaborate detail from the Findings of the District Court, supported by the extensive trial proceedings below, and concurred in by the Court of Appeals. In this context, to cull from this Court's language last Term,

[8] Petitioner's assertion that the patents in suit were fraudulently procured is answered under Section IV of this Argument.

"appellate review of determinations * * * must be quite restricted * * *. Where the trial has been by a judge without a jury, the judge's findings must stand unless 'clearly erroneous'. Fed. Rules Civ. Proc., 52(a)" (*Commissioner* v. *Duberstein*, 363 U. S. 278, 290-291 [1960]). "With the case in this posture," with all issues turning essentially on questions of fact, "appellants have an almost insurmountable burden" (*International Boxing Club* v. *United States*, 358 U. S. 242, 252 [1958]). For here, review "on the entire evidence" cannot leave "the reviewing court * * * with the definite and firm conviction that a mistake has been committed" (*Commissioner* v. *Duberstein, supra*, at p. 291). To the contrary, the District Court's Findings secure precise support from evidence adduced in the lengthy proceedings below as appears in the reference to the testimony and documentary evidence set forth in the Annotated Findings reproduced for the Court's convenience in the Appendix to this Brief.

I

The record amply supports the conclusion of both courts below that Ransburg has not tied equipment to patent licenses.

In all "tying" cases "the supplier of a particular commodity which the purchaser desired foisted on him a further distinct product that he did not wish to buy at all." (*Report of the Attorney General's National Committee to Study the Antitrust Laws* [1955], p. 138; see also *Northern Pacific Rwy. Co.* v. *United States*, 356 U. S. 1 [1958]; *Times-Picayune Publishing Co.* v. *United States*, 345 U. S. 594, 608-609 [1953]; *International Salt Co.* v. *United States*, 332 U. S. 392 [1947]; *Transparent-Wrap Mach. Corp.* v. *Stokes & Smith Co.*, 329 US 637, 640 [1947]). The essence of the "tie," then, is the sale or lease of one product, "but

only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier." (*Northern Pacific Rwy. Co.* v. *United States, supra*, at p. 6). But "Of course, where the buyer is free to take either product by itself there is no tying problem even though the seller may also offer the two items as a unit at a single price" (*id.* at p. 6, n. 4).

The facts make clear "there is no tying problem" here. As the District Court found, "it has always been the express policy of • • • [Ransburg], and so understood by all of its officers and sales and management personnel, that if a prospective licensee preferred to obtain equipment elsewhere than from defendant, he was free to do so and at reduced fees could obtain a license from defendant without equipment • • •" (Fndg. 65; R. II: 1001). Carrying out this policy, Ransburg "has never at any time required that any person desiring a license under" its process patent "must obtain from it or pay for, equipment, installation supervision or part replacement service as a condition to the granting of the license" (Fndg. 66; R. II: 1002). "Nor has any licensee been in any manner coerced into taking undesired equipment, installation supervision, or part-replacement service as a condition to the grant of a license" (Fndg. 67; R. II: 1003).

These Findings are firmly rooted in the pattern of evidence here. When Ransburg was ready to commence "General marketing of the [No. 2] system • • • in 1951" (Fndg. 11; R. II: 979), "the special paint atomizers and accurately controllable paint supply systems required for [its] operation • • • were not available on the market • • •" (Fndg. 11; R. II: 979). Ransburg had already tasted disappointment in trying to interest General Electric, Westinghouse—and even Binks—to manufacture related items (see, *supra*, pp. 10-11). Since "much of the specialized equipment required for the practice of [No. 2] was and is not available on the open market" of necessity Ransburg "produced the same and furnished it to its

licensees in order to be able to market its process * * *" (Fndg. 65; R. II: 1001).

For, as one Ransburg sales official colloquially put it, "The equipment is something that our customers want and desire. They need it. * * * They don't want a piece of paper, they want the equipment to do this job in the plant. * * * The man wants to paint on a production line and you can't do that with a piece of paper, you've got to have tools" (R. I: 620).

So it was that Ransburg at all times considered supplying equipment "as more or less a necessary evil or incidental to our operation." As one of Harper Ransburg's sons, Harold by name, testified: "Our greatest expense is by far our engineering of these jobs and the sales engineering and laboratory engineering * * * far exceed the cost of the equipment. *The cost of equipment we have always considered as more or less a necessary evil or incidental to our operation*" (R. I: 480; emphasis added). Highlighting the "incidental" nature of Ransburg's equipment supply, the "assembling and testing and improving" of equipment Ransburg supplies takes place in a space roughly 25 feet by 100 feet in area—about two per cent of Ransburg's total floor space (*ibid.*). Truly, then, "equipment is a very small part of what" Ransburg supplies "to the customer" (*ibid.*).

Deeming equipment supply as simply "incidental" to marketing licenses, Ransburg has offered to "furnish the engineering background" if a licensee wanted to purchase the equipment elsewhere (R. I: 641). Thus, when Webcor contemplated changing from the No. 1 to the No. 2 Process, Ransburg offered, according to a Webcor official, "to furnish the engineering background to install the system of that type" if Webcor decided "to go out and procure the equipment on our own from whichever sources we could determine could supply it * * *" (R. I: 641).

However, "We felt it was a big enough step to make the step from the No. 1 to the No. 2 without getting involved in a lot of additional engineering, so we didn't bother any more about that part of it" (*ibid.*).

More broadly, Ransburg took great pains to make clear to all its licensees—long before Binks hove over the horizon—"that if a prospective licensee preferred to obtain equipment elsewhere than from defendant, he was free to do so and at reduced fees could obtain a license from defendant without equipment, installation supervision, or part-replacement service" (Fndg. 65; R. II: 1001). The course of Ransburg's efforts to bring this alternative home to its salesmen and licensees—actual and prospective—the District Court's Findings detail.

Thus, well before Ransburg even began to market its No. 2 Process, "this policy was expressed to all distributors and salesmen in a bulletin issued by the Ransburg partnership on August 29, 1947 * * *" (Fndg. 65, R. I: 1001). And this policy "has been reiterated by defendant in bulletins of August 18, 1950; May 27, 1953; July 15, 1953; May 13, 1954; April 4, 1955; and June 6, 1956"—all long prior to anyone's dream of the proceedings here (*ibid.*).[9]

"Although no prospect * * * had ever expressed interest in a license without equipment, in 1953" Ransburg "prepared and stocked standard printed contract forms for licenses without equipment * * *; instructed its sales per-

[9] Typical of these Bulletins is one sent "To All Distributors" on "August 18, 1950"—before general marketing of the No. 2 Process began (R. III: 283-284). There Ransburg wrote: "We have noticed that voltage supplies have been advertised which are supposedly suitable for electrostatic painting. The purpose of this bulletin is to again call your attention to our policy toward prospective users of our processes who might wish to use equipment other than ours * * * We know of no customers who have desired to furnish their own equipment for use with our processes. *However, if a prospective customer should wish to use equipment other than ours, it would not be contrary to our policy* * * *" (*ibid*; emphasis added).

sonnel to advise all prospective customers that non-equipment licenses were available; and informed its existing licensees by letter that should they desire to return defendant's equipment and retain only a license, their monthly fees would be reduced by stated amounts * * *" (Fndg. 65; R. II: 1001). And to those licensees who had not yet begun operating their equipment Ransburg typically wrote: "We wish to inquire whether you would like to convert the subject electrostatic spray licenses to licenses under which we would furnish you no equipment and under which we would assume no obligation for replacement parts, supervision or service * * *" (R. III: 157-58, 286). "If you elect to assume responsibility for these items for yourself and return our equipment, your basic minimum monthly fee of $100 for each unit would be reduced to $80 * * *, and your initial fee * * * reduced from $2600 to $800 * * *" (*ibid.*).

Beyond reminding *present* licensees they were free to secure equipment elsewhere, Ransburg instructed its representatives to "*advise all of your prospective customers* that they may obtain a license without our equipment" for reduced initial and monthly fees (Bulletins of May 13, 1954 reiterating Bulletins of May 27, 1953 and July 15, 1953, R. II: 816; R. III: 284-86, 313; emphasis added). "Since 1953 defendant's sales brochures describing the No. 2 Process have stated that defendant will supply the equipment '*when desired*' * * *. When proposed agreements providing for equipment are transmitted to the prospect, the letter points out that the agreement so provides, and states that defendant understands that the prospect prefers this contract to one under which the equipment is not furnished. Defendant thus takes steps to inform its prospects in writing of the availability of process licenses without equipment upon the initial contract (*sic*), and again when transmitting the proposed agreement for execution" (Fndg. 65; R. II: 1001-2; emphasis added).

The alternative Ransburg offers is a realistic one.[10] This was assured by calling upon the nationally known accounting firm of Ernst & Ernst. The initial fee where equipment is furnished is approximately two-and-one-half times the cost of the equipment, which cost includes burden and profit, as determined by the Ernst & Ernst cost study (Howarth Dep., R. I: 579-80). If the equipment is not desired by the customer, the initial fee is reduced by sixty per cent (R. II: 816)—*thus eliminating from the initial fee a sum equal to one hundred fifty per cent of the equipment cost and profit thereon.* Monthly fees are likewise reduced (*ibid.*). These reduced alternative fees are quoted to interested customers (Fndg. 70; R. II: 1004; R. II: 823). Binks offered no evidence even tending to question the propriety of these differentials. It was in this light that the District Court found that "Any terms quoted to any prospect for a non-equipment license made *due and proper allowance* for elimination of the equipment and related services not to be furnished thereunder" (Fndg. 70; R. II: 1004; emphasis added).

To sum up, absent here is the essential of any "tie"—the conditioning of the sale or lease of one product, Ransburg's process patent license, on the taking of another, Ransburg's equipment. Ransburg's licensees took certain equipment from Ransburg because, in the early days of No. 2, despite Ransburg's efforts, no one else made items

[10] The contention in Petitioner's Brief (pp. 38-42) that Ransburg's non-equipment license form would of necessity force an unwanted license under the apparatus patent and the use of Ransburg equipment is groundless. A drawing would be incorporated in the license only for the purpose of defining the scope of the license, and it would illustrate only whatever apparatus was actually desired by the licensee. Under the express terms of the non-equipment form the licensee would automatically receive a license under the apparatus patent if—but only if—the desired apparatus was covered by that patent. In any event, he would be free to make or to obtain the apparatus of his preference from whatever source he desired. This is confirmed by Ransburg's expressed willingness to license the use of *Binks'* equipment by Binks' customers (R. II: 911).

needed for it to work safely and most efficiently.[11] Ransburg viewed its equipment supply task as no more than "a necessary evil", "incidental to our operation", (R. I: 480). Its "intent was to make nothing that was readily available" (R. III: 174). From the licensee's own point of view, it is apparent why each has obtained the specialized equipment from Ransburg. Not a single licensee has testified that he was forced to take Ransburg equipment against his wishes. To the contrary, as appears from the testimony of those whose depositions were taken by Binks, *they sought out and wanted Ransburg's equipment.*[12] They never asked for a non-equipment license.[13] In the words of Binks' president himself (R. III: 247), "I would say that usually people would like to get equipment from somebody they think has the know-how. So naturally a lot of people, if Ransburg is in that business, they should know what equipment to offer, the best type to offer, and most customers would reach that conclusion, so they might feel they would be better off getting it from Ransburg than they would from somebody else. * * *" And that is just what the licensees did.

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[11] Indeed, under such circumstances, even had Ransburg "tied" process licenses to the taking of its equipment, prerequisites for illegality might well not be met. See *United States* v. *Jerrold Electronics Corp.*, 187 F. Supp. 545 [E. D. Pa. 1960], *aff'd* per curiam March 20, 1961, 29 L. W. 3275. For a more extended discussion of the propriety of tie-ins when the success of the system depends upon equipment unavailable from other purveyors, see generally *The Use of Tie-Ins in New Industries*, 70 Y. L. J. 804.

[12] Houlberg: "We were primarily interested in finding some *equipment* at the time that would fit our needs" (R. III, 270); "our *main objective* in going to Ransburg at the time *was to investigate the equipment* that they had available and which we had inquired about" (R. I: 633).

Rothe: *"We were interested in a proposal on their equipment"* (R. I: 636). "I wasn't interested in obtaining it in any other manner than in a package unit" (R. III: 277).

Wallin: See R. I: 64[illegible]

[13] Houlberg (R. I: 633); Rothe (R. I: 636); Wallin (R. I: 641).

Strong evidence that licensees wanted Ransburg equipment is the fact that, subsequent to the receipt of the 1953 letters affirmatively notifying them of the availability of non-equipment licenses, fifty-five of its existing licensees executed a total of ninety-seven new agreements for additional licenses and in every case, with full knowledge of the alternative, "chose an agreement requiring Ransburg to furnish the equipment" (Fndg. 67; R. II: 1003; Witness E. Ransburg, R. III: 159-60).

This history belies the unwarranted assumption upon which Point I in the Memorandum Amicus Curiae of the United States is bottomed (p. 3). The Government "assumes" as a proven fact that Ransburg had, up to 1953, misused its patents and on this assumption contends that an incomplete "purge" was attempted. Not only is the Government's assumption unsupported by the record, but it is directly contrary to the District Court's Findings 63, 65, 66, 67, 70, 71, 82 and 89 (R. II: 1001-04, 1011, 1013), which are supported by ample testimony and documentary evidence. There was no occasion for a "purge," and none was attempted.

Much the same goes for Binks' argument (Br. 33-36) that Ransburg "requires" its licensees to pay for replacement parts and service. The only "service" which Ransburg undertakes to supply when its equipment is furnished is the supervision of its initial installation in the customer's plant, and replacement free of charge of only those parts which become defective without the fault of the licensee. The license agreement makes clear that "User shall furnish all other labor, materials, and equipment necessary for the use of the Process" (R. III: 37-38).

Although it had no contractual obligation to do so, in order to get its new process off the ground and keep its customers satisfied, Ransburg has sent its engineering personnel to customers' plants to assist them with technical problems—but this was not repair or maintenance of the equipment (R. I: 47). The minimal nature of Rans-

burg's servicing endeavors is underscored by the fact that "*the installation and servicing*" of all Ransburg systems is carried on by "*eighteen*" men (R. I: 607; emphasis added).

As the District Court found with ample evidentiary support, licensees have no more been "required" to take services or replacement of defective parts any more than to take equipment initially (Fndg. 66; R. II: 1002).

II

Ransburg never required any prospective licensee, as a condition to receiving a license under one patent, to take or pay for a license under any other patent.

The law is clear that "mandatory package licensing" consists of "the exercise of the power created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent • • •. Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result" (*American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769, 777 [C. A. 3, 1959], *cert. den.*, 361 U. S. 902 [1959]).

But here the record is barren of evidence that Ransburg ever "compel[led] a licensee to accept a package of patents or none at all" or ever used "one patent as a lever to compel the acceptance of a license under another." Just to the contrary, as the District Court found, "*The defendant has never required any prospective licensee, as a condition to receiving a license under any patent, to take or pay for any license under any patent which did not apply to the system described in the license agreement.* No prospective licensee has ever requested a license under any of defend-

ant's patents which defendant has refused to grant such license unless such prospective licensee also takes or pays for a license under one or more other patents. *No licensee of defendant has at any time received or paid for a license under any patent which did not apply to the system described in the license agreement*" (Fndg. 71; R. II: 1004; emphasis added).

This Finding tracks closely evidence adduced. The electrostatic spray coating needs of Ransburg's prospective customers vary substantially, depending upon the nature and size of the article to be coated, the coating material, the type of finish, and other production considerations. A system is designed by Ransburg for each customer and described in a schematic drawing (Fndg. 61; R. II: 998-99). The standard customer agreement permits the use of the system so designed and does not list the patents which are applicable to that particular system. This assures each customer of a license under such, and only such, Ransburg patents as are actually applicable to that particular system. No license under any inapplicable patent is granted expressly or by implication (R. I: 137-45).

Petitioner's Brief (p. 42) asserts that Respondent has "*never* licensed or offered to license under a single patent alone," citing the testimony of Harold Ransburg (R. I: 482). This fact would be significant only if at some time there had been a request or a desire expressed by someone for such a license, and a refusal by Ransburg to grant it. With access to all of Ransburg's licensees and prospective licensees during discovery proceedings, Binks tendered no evidence whatever of any such request or refusal, and Harold Ransburg testified affirmatively that no such request had ever been made to his knowledge (R. III: 194-95). The trial court so found (Fndg. 71; R. II: 1004).

The argument that a license which does not identify the patents "would force the licensee to recognize the validity of and pay for any and all patents of a large group which

the licensor at any time might own" (Pet. Br., p. 43) is a *non-sequitur*. There being no express recognition of patent validity in Ransburg's agreements, such "recognition" can result only from the legal principle that one who accepts a license under a patent is estopped from contesting the validity of the patent while the license is in effect. The breadth of the license is not determined by the estoppel, but on the contrary, the breadth of the estoppel is governed by the breadth of the license as defined in the agreement. It applies only to those patents under which the licensee actually has a license. *Walker on Patents, Deller's Ed.*, Sec. 383 (1937). Under Ransburg's agreements the user has a license only under the patents which are applicable to his system, and under no principle would he be estopped from contesting the validity of any other patents owned at the time by Ransburg.

Most Ransburg licensees, satisfied from the express terms of the license-grant that no Ransburg patent could prevent their use of the equipment they desired, were not interested in knowing what patents Ransburg owned. However, for seven licensees lists of Ransburg's patents were supplied (R. I: 50, 178-81). Only the Durham contract and the Avco contract of February 2, 1954, related to the No. 2 Process (R. I: 154, 159)—and of the seven, only the Avco agreement was offered in evidence by Binks.

That Avco contract, in accordance with Ransburg's understanding of Avco's desires, listed all Ransburg patents and, by typewritten modification of the regular printed form (R. II: 886), characterized the listed patents and applications as "pertaining to and covering methods and apparatus used in electrostatically depositing liquid spray particles formed by airless atomization * * *" The just-quoted language came from the printed form (R. III: 18), and its use to describe the listed patents and applications was an inadvertent error, which was corrected as soon as it came to attention (R. II: 965).

Petitioner's attempt (Pet. Br., pp. 44-46) to parlay these isolated instances in which patents were "listed or referred to" (R. I: 50) into a "program" of illegal package licensing collapses when it is borne in mind that Ransburg at no time represented, or intended to represent, that all the listed patents were indeed applicable to the particular painting operation licensed (R. I: 472-73). Supporting this version of events, neither Avco—nor any one else—ever suggested they were forced, urged, or even asked to take or pay for any license not covering the particular painting operation desired. It was in this light that the Court of Appeals concluded "No licensee pays for or receives any license under a patent not applicable to the system" for which he contracts (R. IV: 848).

No "mandatory" package licensing has occurred.

III

Ransburg's inclusion of a limited grant-back provision in certain license agreements, during the early field experience of No. 2, was reasonable and lawful.

True, "Congress * * * has made no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents" (*Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637, 647-648 [1947]). Equally true, however, "that does not mean that the [grant-back] practice * * * has immunity under the antitrust laws" (*ibid.*). To the contrary, grant-backs must pass antitrust muster, where legality turns on their purpose and competitive effect. (Compare *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, *supra*, with *Hartford Empire Co.* v. *United States*, 323 U. S. 386 [1945] and *United States* v. *General Electric Co.*, 80 F. Supp. 989, 1006 [S. D. N. Y., 1948]).

Here, as the District Court found, "So that defendant, and all of its licensees might share in the use of any

improvements developed by licensees who had the advantage of the use of the No. 2 Process in its early field experience, the forms employed from April, 1951, to January, 1955 * * * included a requirement in substance that the licensee grant back to defendant a royalty-free, non-assignable, non-exclusive license, with right to sublicense, under any patents, inventions, or improvements acquired by licensee during the term of the agreement, and within two years thereafter, relating" to the No. 2 Process (Fndg. 84; R. II: 1011-1012). Though some of these old license agreements were still in effect at the time of the trial,[14] the "grant-back clause has not been included in defendant's forms since January, 1955." (*ibid.*). "Defendant has never acquired any patent or patent right pursuant to" this clause (*id.*).[15]

[14] For the first time in these proceedings Binks states in its Brief (pp. 17, 48, 54) that some of these clauses are "still in force and effect." The fact is that none is any longer in effect, all having been cancelled by letters to licensees in September 1959, following the declining by Ransburg of the only license ever tendered by a user pursuant to this clause.

[15] In fact, no patent relating to the No. 2 Process was ever acquired from any source other than the Ransburgs and their engineering and consulting personnel, and all No. 2 inventions but one sprang from Ransburg's own laboratories in Indianapolis. The lone exception was a development by a research consultant hired to do work on No. 2 in Chicago (Fndg. 77; R. II: 1009).

Petitioner's Brief (pp. 2, 5, 7-9, 15 and 21-23) attempts to make much of four acquisitions in the 1940's of certain adversely held patent rights. None of the rights so acquired related to *airless* electrostatic painting—the sole process at issue here—and Petitioner's allegations were fully explored and rejected by the Courts below. When it began to enter the electrostatic painting field, Ransburg found that certain adversely owned patent rights were threats to the marketing and use of the systems which it had developed. To remove these roadblocks and to protect Ransburg and its licensees (some of whom it had agreed to indemnify) against patent infringement claims, Ransburg in two instances purchased and in two instances procured licenses under the adversely held patent rights. None of the other parties with whom Ransburg dealt was a competitor of Ransburg or a marketer of painting systems and no market was divided. The District Court's Findings 72-76 (R. II: 1005-09) document Ransburg's

First of all, then, this grant-back provision and its effect were sharply limited. It was employed only in licenses issued during the first four years of No. 2's commercial life. Further, any license granted back would be (a) non-exclusive; (b) applicable only to subject matter in the field of the basic patents; and (c) limited to use of that subject matter in such field.

Beyond the curtailed nature of this grant-back, just what was its purpose? As one of the Ransburgs explained, "We included it because we wanted some field experience during the final development stages and those who gained the initial advantage of it, we felt should give us their future inventions that came about" through use of the process (R. I: 536). The grant-back's purpose, then, to cull again from the District Court's findings, was simply "that defendant, and all of its licensees might share the use of any improvements developed by licensees who had the advantage of the use of the No. 2 Process in its early field experience" (Fndg. 84; R. II: 1011).

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lawful purpose in acquiring these adversely held rights and refute the Petitioner's contention (p. 21) that Ransburg was motivated by "monopolization and restraint of trade", and these findings are firmly supported by the Record (R. I: 423, 440, 448, 459; R. III: 154, 163-64, 195, 199-201). Thus, the District Court concluded that none of the acquisition agreements "was entered into by defendant * * * with the purpose or intent of restricting entry of competitors into the field of electrostatic spray coating equipment, or of coercing the trade into dealing with defendant, and there is no evidence that any of them had such effect" (Fndg. 78; R. II: 1009-10).

Neither was Binks "injured in [its] business or property" (15 U. S. C. Sec. 15) by these transactions, since it never sought a license under the patents involved (Fndg. 79; R. II: 1010), has recognized that "there was nothing stopping" Binks from marketing air-type equipment from the time it first gave consideration thereto (Rice, R. III: 261. See also Roche, R. III: 243, and Baur, R. III: 253), but it "chose not to do so until 1958" (Fndg. 81; R. II: 1011; Pet. Ans. to Ints. 27, 28; R. III: 45-48).

From this purpose of sharing all advances with beginning licensees, no anti-competitive consequence followed.[16] Initially, "Defendant has never acquired any patent or patent rights pursuant to" the grant-back (Fndg. 84; R. II: 1012). And, as the District Court found, the grant-back "clause has not stifled or discouraged research or invention by licensees" (*ibid.*).[17]

Ransburg's grant-back provisions, while they were in use and effect, were reasonable and lawful.

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[16] As the *Report of the Attorney General's National Committee to Study the Antitrust Laws* [1955], p. 229, concludes, the grant-back of exclusive licenses should be "subject to close scrutiny", but "On the other hand, grant back of a nonexclusive license, especially with authority to sublicense, may diffuse the benefits to all licensees and thus tend to encourage competitive use of the innovations". In fact, expressly allowed in *United States* v. *General Electric Co.*, 115 F. Supp. 835, 848 (D. N. J. 1953) was a provision enabling General Electric to require nonexclusive grant backs in licensing "future patents."

[17] Petitioner's reliance upon (p. 51) a 1953 interoffice memorandum to Harold Ransburg (R. II: 743-44) is wholly misplaced. From the letter itself it is clear that the statement "getting any further work done on the equipment" was not related to the effect of the grant back clause, for the "further work" was work General Electric desired Ransburg to perform. And, even this conclusion was unwarranted, for there is ample evidence that Ransburg, because of the differing needs of its customers, of necessity was continually modifying and improving its basic system (R. III: 173).

The position taken by both Petitioner (Br. p. 48) and the Government (Memorandum, pp. 8-9), that the grant-back clause "inevitably resulted in discouragement of experimentation by any but" the licensor is borne out by no evidence whatever, although the issue was before the Court for trial and Petitioner had ample opportunity to present such evidence if it had existed. Moreover, this is in direct conflict with the express finding of the District Court that the "clause has not stifled or discouraged research or invention by licensees" (Fndg. 84; R. II: 1012), which is supported by the uncontradicted testimony of Harold Ransburg that licensees did have incentive to make improvements (R. I: 487). The Court of Appeals correctly concurred, observing that the asserted stifling effect of the clause "is purely conjectural" (R. IV: 849).

IV

There was no fraud in the procurement of the patents in suit.

With no justification in the Record or otherwise, Binks charges that Ransburg "procured the issuance" of the patents in suit "by false representations in affidavits filed in the Patent Office to the effect that it had *actually commercialized* the stationary type systems of the then pending parent method patent application" (Pet. Br., 54) when it "knew it had never commercialized any of the *structures illustrated* in the Starkey patents * * *" (*Id.*, at 55, emphasis added).

The Isgrigg and Howarth affidavits, to which Binks refers, were filed with the Patent Office on March 20, 1953, as evidence of the commercial success of the invention as embodied in the Ransburg No. 2 commercial systems (R. IV: 637-42). In neither affidavit is it stated or represented that the No. 2 systems employ stationary heads. But more important, the details of the heads in the systems referred to in these affidavits were entirely immaterial—what *was* important was the fact that the systems described fell squarely within the scope of the application claims as then being prosecuted and as they ultimately issued. What counts are the *claims* of the application—not drawings that merely illustrate specific embodiments of the invention. As this Court has consistently held over a half century, the Court of Appeals correctly stated that "the claims not the drawings define the invention" (R. IV: 843). See *e.g.*, *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 419 (1908); *Smith* v. *Snow*, 294 U. S. 1, 11 (1934); *Universal Oil Co.* v. *Globe Co.*, 322 U. S. 471, 484 (1943).

There can be no question but that, as the District Court found, the rotating heads which Ransburg commercialized "embody the fundamental concepts to which the claims

• • • are directed, and the commercial success the systems have enjoyed is to be credited basically to the inventions those claims describe" (Fndg. 42; R. II: 991). As the Court of Appeals put it, "the revolving bell or rotating disc feeding the paint to the atomizing zone by centrifugal force is fully embraced within the general concepts of the invention and constitutes a mere improvement in the mechanics of presenting the liquid to the zone of atomization" (R. IV: 843).

Not only were the affidavits free from misrepresentation, but the Patent Office was neither misled nor uninformed as to the rotary nature of Ransburg's No. 2 heads. Ransburg had widely distributed its brochure which is Exhibit IIII in this case (R. III: 455-59), entitled "Ransburg No. 2 Electrostatic Process" (R. I: 423-24). In addition to illustrating the rotary heads in a drawing and in photographs, this brochure stated on page 2 that "*rotation of the head*" causes the paint "to flow evenly to the outer edge" (R. III: 458, emphasis added). A copy of this brochure was furnished to the Patent Office on September 19, 1951, a year and a half before the Isgrigg and Howarth affidavits were filed, and the brochure has been cited frequently by the Patent Office as a reference in a number of issued patents.[18]

[18] Referred to in U. S. Patent No. 2,839,425, the last page of which is reproduced in the Appendix to Respondent's Brief (p. 53), as follows: "No. 2 Electrostatic Process, Ransburg Electro-Coating Corp. 12 pages rec'd in U. S. Patent Office Sept. 19, 1951." See also, U. S. Patent Nos. 2,764,125; 2,781,279; 2,794,751; 2,808,343; and 2,955,565.

Conclusion

Viewed as a whole, the Record here tells a detailed story of the invention and early marketing of a significant technical advance by a small Indiana concern. Involved here is not one of "a host of gadgets under the armour of patents—gadgets that obviously have no place in the constitutional scheme of advancing scientific knowledge * * *" (*A. & P. Tea Co.* v. *Supermarket Corp.*, 340 U. S. 147, 156 [1950]). Instead, developed by the Ransburgs from the idea "born" that day when Starkey's paint brush became involved in an electrostatic field has been an airless electrostatic paint process that cuts "paint losses" from their prior level of "about one-third of the paint sprayed" (Fndg. 19; R. II: 983) down to "1% or 2% of the paint sprayed * * *" (Fndg. 20; R. II: 984).

Despite this significant advance, Ransburg faced real difficulties getting its new process off the ground. Key equipment was not available, so Ransburg was forced to develop and supply it. Minimizing initial capital outlay by its customers while still maintaining a fair and reasonable relation between its return and the value of the process to the customers, Ransburg leased equipment and offered monthly charges for both the equipment and process proportioned to savings in paint costs. And, again in the early experimental days, to assure all beginning licensees the benefits of new advances by any one licensee, limited provision for non-exclusive grant-back was tried. Even in 1957, with the No. 2 Process on the market for almost six years, and being used by such large industrial concerns as American Motors, General Electric, Westinghouse, IBM, and DuPont (R. I: 158; R. III: 130), industrial painting carried on via No. 2 still amounted to but 1% of the national total (Fndg. 83; R. II: 1011).

Through the patent laws, Congress "gives the patentee * * * the 'exclusive right to make, use, and vend the inven-

tion or discovery' for a limited period * * *. That is to say, it carries for the statutory period 'a right to be free from competition in the practice of the invention' Mercoid Corporation v. Mid-Continent Co. * * *" *Transparent-Wrap Mach. Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637, 643 [1947]). Without this protection, the appropriation by industry of the No. 2 Process would be certain, without the reward to Ransburg contemplated by the patent laws.

Ransburg has employed its patents to promote the use of the inventions in the manner intended by Congress. It has licensed industry to use the inventions in consideration of charges geared to the value of the use and representing a portion of the savings realized by the user in the cost of paint sprayed. Industry could adopt the process only if it reduced production costs, and then only if the specialized equipment necessary for production-line painting could be obtained. There being no other source, Ransburg designed and furnished it, but never undertook to supply items which were not part of the specialized equipment itself and which were readily available from Binks and others.

Understandably Ransburg's licensees have sought and wanted the equipment which was developed through the research and experience of the only company in the field, and behind which it would stand. Consequently, all have entered into agreements requiring Ransburg to furnish it. Nevertheless, Ransburg has always stood ready to license the use of its inventions separate and apart from the furnishing of any other item, and to do so at appropriately reduced charges, and has quoted terms to any customer interested in that type of license.

As was found by the courts below, Ransburg has never attempted to exclude other manufacturers from the equipment field—it has stood and now stands ready to issue non-discriminatory licenses to use the inventions of its patents, leaving the licensee free to obtain all equipment and services from Binks or any other supplier. When Binks decided that it should add airless electrostatic spray-

painting equipment to its line of "Everything for Spray Painting" and asked Ransburg for a license to make and sell such equipment under the Ransburg patents, Ransburg declined a license on Binks' nominal royalty terms, but specifically told Binks that licenses were available from Ransburg to Binks' customers to use the process, which would have enabled Binks to sell them equipment for use of the process without a separate license to make and vend. As Binks' own president admitted, it was the issuance of this patent which was the "damper" to Binks' marketing airless systems rather than Ransburg's marketing practice, and this obstacle Ransburg offered to remove by licensing Binks' customers (R. I: 684; R. II: 911; R. III: 239).

At no time has Ransburg attempted to enlarge its rights under any patent by requiring the licensee to take or pay for anything else in order to obtain the license.

The judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

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